

MINUTES OF ROANOKE CITY AUDIT COMMITTEE

June 20, 2005

1. CALL TO ORDER:

The meeting of the Roanoke City Audit Committee was called to order at 12:50 p.m. on Monday, June 20, 2005, with Chair, Dr. M. Rupert Cutler, presiding.

- **The roll was called by Mrs. England**

Audit Committee

Members Present: Dr. M. Rupert Cutler, Chair
Vice-Mayor Beverly T. Fitzpatrick, Jr.
Sherman P. Lea (arrived late)
Brenda L. McDaniel
Brian J. Wishneff (arrived late)

Audit Committee

Members Absent: Mayor C. Nelson Harris
Alfred T. Dowe, Jr.

Others Present: Drew Harmon, Municipal Auditor
Darlene L. Burcham, City Manager
William M. Hackworth, City Attorney
Jesse A. Hall, Director of Finance
Mike Tuck, Assistant Municipal Auditor
Pamela Mosdell, Information Systems Auditor
Brian Garber, Senior Auditor
Cheryl Ramsey, Auditor
Doris England, Administrative Assistant
R. Timothy Conner, KPMG
Peter J. Ragone, II, KPMG

2. INTERNAL AUDIT REPORTS:

- A. Police Property Room
- B. Street Lighting

Dr. Cutler ordered that internal audits A and B be received and filed. There were no objections to the order. Dr. Cutler recognized Mr. Harmon for comments on each of the audits beginning with the Police Property Room.

Mr. Harmon stated the conclusion of the Police Property Room audit was that controls could be strengthened. Although there was a fairly good system in place, it was determined that some things were not being done as specified. When dealing with property that may be used in court, there must be an extensive system of controls. Several items of concern were as follows:

- Random drug testing – the Drug Evidence Officer had only been tested once in 20 years. She was tested again just after the audit.
- Property room access – too many employees had been given access to the room over time. Access should be limited and based upon job responsibilities.
- Computer access – some employees were assigned access rights that were incompatible with their job duties.
- Transfers of property to the courts – the form for transfers was not being used as intended in tracking property.
- Property Room Clerk’s day-to-day activities were not documented – turnover occurred in this position during the audit, and it became obvious how frustrating and difficult it was for the new person to assume the duties involved.

Chairman Cutler asked the City Manager what the Police Chief had done in response to the findings of the audit. Ms. Burcham stated that changes were made as the findings were identified. The form had already been updated to properly track property between the property room and the courthouse. The other findings had also been addressed with one exception, the random drug testing. Ms. Burcham stated this is a city-wide policy, and she would seek consultation from the City Attorney’s office as to how that policy could be revamped and still meet the requirements of the law. Chairman Cutler asked Ms. Burcham to explain a little about these requirements. Ms. Burcham stated that there are limits as to what groups can be tested regularly. Public Safety employees and those employees working under OSHA requirements, operating heavy-duty equipment, can be tested regularly. The city has implemented a policy that employees being promoted also must be drug tested.

Chairman Cutler asked the City Attorney for his comments on the random drug testing. Mr. Hackworth stated that Ms. Burcham had listed the categories that the city could subject to periodic, as opposed to sporadic, drug testing. He said he would look at the issue to determine if the testing could be broadened. Chairman Cutler asked Mr. Hackworth to respond back to City Council with a summary of what the opportunities and constraints are in regard to this policy.

Chairman Cutler asked Mr. Harmon to proceed to Item B on the agenda, the Street Lighting audit report. Mr. Harmon stated that Municipal Auditing could not conclude on the accuracy of the invoices received from AEP for street lighting because neither the city nor AEP have sufficient records to do so. Municipal Auditing reviewed invoices and met with AEP to gather an understanding of the history of the billings. Mr. Harmon stated he felt the bills were accurate within a reasonable degree. Roanoke is within the normal range when compared with other localities’ street lighting. Mr. Harmon said there were two other benefits from this audit. The audit sparked conversations within the Transportation department and between the city and AEP. The Auditing department, as well as Ken King and his staff, learned more about street lighting. Secondly, Mr. Harmon stated, it changed his perspective regarding street lighting. Street lighting can contribute to light pollution just as

an overly light parking lot can. The main goal of street lighting is to improve street safety, and street reflectors can also be used to aid in achieving that goal. Mr. Harmon stated the audit was productive and had a good response.

Chairman Cutler asked Ms. Burcham to comment on the Street Lighting audit. Ms. Burcham stated the audit brought forward a helpful conversation, as Mr. Harmon had noted. She explained the city gets many more requests for street lights each year than it approves, and all aspects of those requests must be managed. The city is changing out the wattage of some lights to minimize additional street lights and give greater illumination. Ms. Burcham stated the city is testing some different lights in the downtown area now. She suggested that Council members look at Campbell Avenue. Also, the city is testing a seasonal lighting in the 200 block of Church Avenue that Council may want to view. Ms. Burcham noted the audit brought up a good point, which is also referred to in the city's comprehensive plan, regarding light pollution.

Chairman Cutler asked Ms. Burcham if the city's zoning ordinance that addresses lighting at places such as gas stations also addresses street lights. Ms. Burcham said she did not know and would check to find out. Ms. Burcham stated that the city's first public hearing on the zoning ordinance was scheduled for July 29, 2005.

Mr. Wishneff asked if the city had conducted an energy audit on the overall energy usage in buildings, etc. Mr. Harmon replied that he knew General Services had looked at the issue. Ms. Burcham stated that General Services, in its adopted budget for July 1, 2005, had reduced its budget for electricity with the intent of doing some energy saving activities. She stated there had been several conversations with the City Attorney's office and the Finance Director's office about contracting with an energy management firm to come in, make improvements, and be repaid through the savings achieved. Unfortunately, the legal and financial interpretation of this approach is that type of arrangement would have to be accommodated under the city's debt policy. It would be considered indebtedness even though funding the improvements would come from the operating budget. Mr. Wishneff said he knew of some companies that would do this and had recently spoken with someone from Chevron. Mr. Hall stated he would suggest the city allocate some capital replacement funding to hire an energy consultant on its own. If contracting with an energy company, the city would be paying lease arrangements, and the energy company would set up an elaborate measurement of energy savings that may not be as objective.

Mr. Wishneff asked if there was anything the city was doing to buy automobiles that are not 100 percent gasoline-powered. Ms. Burcham replied that she and the mayor had traveled to Alexandria in a hybrid vehicle about a month ago, and the trip went very well. The city has one car as a pilot vehicle, which will be used in six-week intervals in different operations within the city, for a year. Mr. Wishneff asked about larger vehicles, such as big trucks and machinery. Mr.

Fitzpatrick replied there was not a market for that as yet; however, there is a market for biodiesel, which is being used in buses.

Chairman Cutler asked if there were any further questions regarding the two internal audit reports. There were none.

3. UNFINISHED BUSINESS:

There was no unfinished business to come before the committee.

4. NEW BUSINESS:

A. Municipal Auditing 2006 Annual Plan

Mr. Harmon suggested that item number five in the agenda be moved forward in the interest of having enough time to cover the presentation by KPMG and using whatever time left for discussion of the audit plan. Mr. Wishneff asked if the performance and financial audits in the plan were audits done every year. Mr. Harmon replied that the financial audits were done every year, and the performance audits were cycle audits, planned over a 10-year history. Mr. Harmon stated that if there was not enough time to fully explain the audit plan, he would be glad to go over it in person with any of the committee members.

5. OTHER BUSINESS:

A. KPMG External Audit – Fiscal Year 2005 – Audit Committee Planning Meeting

Chairman Cutler recognized Mr. Harmon for the next item before the committee. Mr. Harmon introduced Tim Conner, Partner with KPMG in Roanoke who oversees the external auditing at the city, and Pete Ragone, Senior Manager who does most of the onsite management of that work. Mr. Harmon stated this meeting was required by the Virginia Auditor of Public Accounts. The state requires the city's external auditors speak to the Audit Committee regarding the scope, the nature, the controls and compliance work performed in the audit. Chairman Cutler then recognized Mr. Conner for his comments. Mr. Conner went over the planning meeting handout, beginning with the agenda and the listed members of the engagement team. He stated one member of the team, Deidre Carter, left a week ago, so her duties would be split between Jeremy Weaver and Brad Osborne. Mr. Conner then went over the entities subject to audit and reporting; those being the City of Roanoke, the Roanoke City School Board, the Greater Roanoke Transit Company (GRTC) and Transit Retirement Plan, and the City's Pension Plan. He then turned the presentation over to Mr. Ragone who went over the engagement timetable. Mr. Ragone stated that GRTC was not included on the timetable, and it actually has an accelerated timetable. KPMG will be at GRTC in August for final work with a report due on September 15, 2005. Final reports on all entities are due by November 1, 2005. Mr. Ragone then went over the audit approach and significant audit areas. Chairman Cutler asked if KPMG were involved with the

offices of the Commissioner of the Revenue and Treasurer. Mr. Ragone replied that his staff does test work in these offices and are aware and take into account everything that Municipal Auditing has done. Mr. Ragone stated he believed what Municipal Auditing did was more of a performance audit, and what KPMG does is more of a financial presentation and material statement to make sure what is collected is being reported.

Mr. Ragone pointed out the transfers of the Water Fund and the Water Pollution Control Fund to the Western Virginia Water Authority as of July 1, 2004. Chairman Cutler asked how transfers of assets such as land are handled. Mr. Ragone replied that a value must be assigned. The value that goes off the books at the city may not be what goes on the books at the Water Authority. The historical value assigned will be what comes off the books at the city. Chairman Cutler asked if there were a number value of the land that the city owns. Mr. Harmon stated there was a number value, but it is based on historical value versus market value.

Mr. Ragone continued with page seven of the presentation, which indicated the anticipated programs to be tested would be Child Nutrition, Special Education, Food Stamps, and Child Care Services. Other matters to be considered are the School Board Budgetary Issues, Child Care Funding Issues, and the Commissioner of the Revenue – Municipal Audit Department Findings.

Chairman Cutler asked if the Audit Committee could meet with the KPMG representatives without city staff present, perhaps about midway through the auditing process. He further stated that if anything looked amiss, KPMG should feel free to ask for a meeting and one would be scheduled. Mr. Conner stated that was fine, and if a situation arose prior to completion of the audit, KPMG would contact Dr. Cutler to determine if a meeting should be set up. He said it is common practice to have a separate executive session with the external auditors, whether with private or public clients.

Chairman Cutler asked if there were any questions from the members of the committee. There were none.

Mr. Wishneff asked for information regarding the Advantage 3 Post Implementation audit listed on the annual audit plan. Mr. Harmon explained that Advantage 3 is the new financial system that goes into effect on July 5, 2005. The Auditing staff will look at the testing after it is implemented and report back to the Audit Committee. Mr. Wishneff then asked what the Contract Management audit was. Mr. Harmon stated that contract management is a citywide issue examining how the contracts, such as custodial, mowing, etc., are managed and if the city is getting what it contracted for. Mr. Wishneff asked what the audit on drug testing would entail. Mr. Harmon stated that drug and nicotine testing is required of certain employees, and this audit will determine if those requirements are being met. Mr. Wishneff asked about the Economic Development audit, and Mr. Harmon responded that this is a performance audit and will take an overview of the budget, goals and

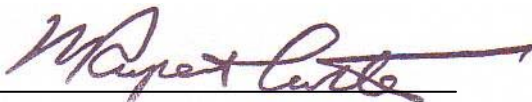
objectives, and performance measures within that department. Municipal Auditing will select an area that would appear to be most crucial to examine and report back to the committee what it finds. Ms. McDaniel asked if the Purchasing Card audit was done last year, and Mr. Harmon stated that typically the Purchasing Card audit is done annually since its inception in 2002. This year, much has changed and Purchasing has more responsibility, so Auditing will be looking at those controls.

Chairman Cutler asked Mr. Harmon to tell the committee about the inservice training his staff will be doing in the city in respect to ethics. Mr. Harmon stated that if a person wants to steal or break rules, he or she will. He feels the best that Auditing can do is to educate employees, explain what internal control is and why it is important. Mr. Harmon said his staff will be publishing some guidelines for managers and also speaking to employee groups, if requested, on the importance of internal controls, not only for that department, but for others as well. Ms. Burcham stated that there was a new manager orientation program with the goal to help new managers coming into the job, whether from an internal promotion or outside city employment, to gain an understanding of how to operate within our administrative structure. She also stated that she had asked department heads to mentor the new people so the new managers will have someone they feel comfortable about asking questions of. Ms. Burcham said that Mr. Harmon's staff will be doing the orientation on auditing, and Mr. Hall's staff will do the finance portion. Other departments within the organization will be included.

Chairman Cutler asked if there were any further business for the committee. Mr. Wishneff asked Mr. Harmon what to do if a committee member wanted to suggest adding an area to be audited. Mr. Harmon replied that the member should contact the Chairman and ask to put the request on the agenda for the next Audit Committee meeting. At the meeting, it could be discussed and a vote taken on doing the audit.

6. ADJOURNMENT:

There being no further business, the meeting was adjourned at 1:35 p.m.

A handwritten signature in dark ink, appearing to read "M. Rupert Cutler", written over a horizontal line.

M. Rupert Cutler, Chair